



Memorandum # 1/2005

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
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Domenic J. F. Russo, *Chairman* | A. Joseph DeNucci, *Vice Chairman*
Kenneth J. Donnelly | Eric A. Kriss | James M. Machado | Donald R. Marquis
Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Data Verification for PERAC 2004 Annual Report

DATE: January 4, 2005

We are in the process of compiling information necessary for the PERAC 2004 Annual Report. Please review the attached retirement board data sheet, the managers, custodian and consultant list, and calculate your target investment rate of return. Please annotate the data sheet and management list with whatever changes need to be made and return them with your target investment rate of return to Rose Cipriani at PERAC no later than January 17, 2005. Please note that if no changes need to be made to the data sheet and/or managers list, please mark them as correct and return them to Ms. Cipriani.

1.) Retirement Board Information

Please verify the attached printout of information about your retirement board. Your board address, telephone number, fax, and board meeting information should be as of the current date.

However, the names of board members and the board administrator should be as of December 31, 2004.

2.) Managers, Custodians, Consultants

Please assist us by verifying that the attached list of manager(s), custodian, and consultant (if any) were retained by your retirement board in accordance with statute and regulation as of December 31, 2004. Please note that PERAC considers each pooled fund (e.g. mutual funds, commingled funds, group trusts, real estate funds, limited partnership funds, and venture capital funds) as an investment manager for the retirement system.

Any discrepancies between our records and the board's records, including any differences in the names of the investment management firms or differences in the names of pooled fund product, should be noted on the attached management list.

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Please note that if a fund has been liquidated or if a manager has been terminated, the Board must submit a letter to the Investment Unit stating the name of the fund or name of the manager and the date of liquidation or termination.

3.) Rate of Return Objective

Please provide PERAC with your board's Target Investment Rate of Return. This is the rate of return for the entire portfolio as set forth in item #4 in your *Statement of Investment Objectives*. It may differ from the Actuarial Rate of Return. The Actuarial Rate is calculated as the annual investment return necessary to amortize a system's unfunded pension liability over a specified period while the Target Rate is calculated by considering a system's current asset allocation and the projected rate of return attributed to each asset class. As noted in the Fundamentals of Asset Allocation report issued in February 2000 (available on the Investment Unit page of the PERAC website), the historical annual rate of return on US stocks since 1926 is about 11% and that of high-grade bonds is about 5.5%. Using these assumptions, a system having an asset allocation of 55% US stocks and 45% bonds would have a Target Return of 8.53% ($.11 \times .55 + .055 \times .45 = .0853$). It is reasonable that systems using investment consultants may be advised to use different projected asset class returns.

Name of Retirement System _____

Target Investment Rate of Return _____

If you have any questions about calculating the Target Investment Rate of Return, please call Robert Dennis at (617) 666-4446 ext. 922.